MAY
2011

CARING FOR OLDER AUSTRALIANS

RESPONSE TO THE PRODUCTIVITY COMMISSION DRAFT REPORT

PREPARED BY:
Deloitte &
Retirement Village Association

Deloitte.

Retirement Village Association

Introduction

We appreciate the opportunity to provide you with our response to proposals that you have outlined as part of the recently released Draft Report - *Caring for Older Australians* ("Draft Report"), in relation to the retirement village ("RV") industry.

The Productivity Commission is to be commended on a thorough and considered Draft Report. The Draft has outlined a number of significant initiatives that should, if executed well, greatly enhance the delivery of housing, care and services to older Australians.

The Retirement Village Association ("RVA") and Deloitte Touche Tohmatsu ("Deloitte") believe that the RV industry could be a highly effective setting for care to be delivered. However, one of its major constraints currently is the ability of older people to release equity that could be utilised to develop assets where care could occur.

We would welcome the opportunity to meet with you to expand upon and explore further the proposals below to enhance the communication as to how the strategies outlined can benefit the government and the broader community.

Please find within our response to be considered as part of your *Caring for Older Australians* Public Enquiry. Our response is based on the outcome of a workshop held by Deloitte on 4 March 2011 with participation from RV developers, financiers to the industry, representatives from the RVA and other industry participants, as well as other discussions with other clients affected by the proposals in the report. Our response covers the findings and recommendations in the Draft Report that we believe could assist the industry to grow for the benefit of our community. We also draw on recommendations made by other agencies.

Our response covers 3 main proposals outlined in the Draft Report and previously included as recommendations in our original submission (July 2010) namely:

- The PC's recommendation that a government backed equity release scheme be introduced to enable care recipients to draw down on the equity in their home
- The need for more housing that is appropriate for independent living and associated home based care for older Australians
- The merit in pursuing greater consistency of RV legislation across jurisdictions

We hope that this response is of benefit to you and we would be pleased to address any queries that you might have with respect to it. Please do not hesitate to contact either Andrew Giles on 03 9670 0255 or Helen Hamilton-James on 02 9840 7380.

Yours sincerely,

Helen Hamilton-James
Partner and Senior Living Leader
Deloitte Touche Tohmatsu

Andrew Giles
Chief Executive Officer
Retirement Village Association

Response to The Productivity Commission Draft Report

The PC has recommended a government backed equity release scheme be introduced to enable care recipients to draw down on the equity in their home.
We note that one of the key issues affecting the industry is access to capital and hence the development of a viable economic business model that attracts investment and delivers to market needs is vital. As outlined in recommendation 3 of our original submission (July 2010) our proposal was that:

- The Government to work with stakeholders in the retirement village industry to establish a range of regulated investment products / mechanisms to generate capital for the sector to ensure delivery of targeted seniors housing.

We draw your attention to the response to the Draft Report issued by Deloitte Access Economics on behalf of Homesafe Solutions Pty Limited on 17 March 2011 ("the Response") which outlines the benefits associated with a home reversion scheme which would "allow Australian retirees to make co-contributions to their retirement and aged care from their private savings". We fully support such a scheme and believe that it can provide a number of possibilities in future industry structuring that can deliver viable benefits to all stakeholders. A summary on the benefits to different stakeholders is:

1. **Market** benefits through improving affordability via the access to existing residential property equity to fund potential annuity style investments that cater for movements through the aged care system.

2. **Government** benefits through the availability of alternative funding models that can reduce the funding burden on government for future aged care demand.

3. **Business** benefits by providing a new class of investment strategies that are stimulated by equity released capital that can be reinvested into packaged solutions delivered by an integrated "*Retirement Village (and Residential property), Funds Management and Care services*" providers. Such providers exist now and present immediate capability and capacity to work with the commission on the detail of the proposal.

The home reversion scheme outlined in the Response would result in capital flows as the result of the opening up of a market for investors to invest into residential property as well as allowing older Australians to access the capital tied up in their family home to pay for their aged care needs (both care and accommodation). The Retirement Industry presents a hidden asset that is capable of delivering an integrated "investment and care service provision" product from this capital flow that can deliver benefit to all stakeholders in the sector.

Deloitte and the RVA believe that for the reasons laid out in the Response the Government has a vital role to play in removing some of the constraints currently experienced. The benefits of such a scheme to the government are clearly laid out in the response. We strongly support the PC's recommendation that such a scheme be introduced and feel that the Response clearly articulates the key benefits for Australia.

Whilst it needs to be recognised that the Retirement Village industry solutions are different to the afore mentioned proposal, we believe that the Retirement Village proposal can deliver a direct product to the market, through the equity release scheme concept, that will provide a viable private funding model for future aged care costs.

This product delivered through the "*Retirement Village (and Residential property), Funds Management and Care services*" providers will reduce the pressure on government as well as giving current equity holders a financially viable investment vehicle from which the equity funds may be routed to.

The RV industry acknowledges that the driver for the scheme as outlined in the Response is to allow older Australians to remain in their homes for longer. The RV industry (using the unique funds management/health services and property development experience) is perfectly positioned to extend such a scheme through the creation of investment products to allow residents to invest and use some of the capital in their home to provide access to health services and also provide access to retirement living accommodation as and when needed.

We believe this scheme is of significant importance to the future viability of the industry and would appreciate the opportunity to discuss with you further.

The PC acknowledges the need for more housing that is appropriate for independent living and associated home based care for older Australians.
We note that one of the key issues affecting the industry is restrictive planning regulations. As outlined in recommendation 5 of our original submission (July 2010) our proposal was that:

- Consideration of a Commonwealth led series of incentivised planning reforms to increase the delivery of targeted seniors housing.

As a result of the high costs of land and the associated structural issues in the industry, residential housing projects generally are more attractive than RV projects given the additional associated costs and accordingly lower returns associated with RV projects. To make RVs more affordable, we would like to see government make unused land available (particularly near transport hubs), reduce legislative constraints and also recognise that RVs can be part of a mixed-use residential community. We consider that the availability of land is the most pressing issue.

Council planning processes and the holding cost of land do not help support developer feasibilities. By way of example, one option (amongst many) would be to create a Public Private Partnership (PPP) model where Councils or State Government Authorities supply land (that may be surplus) and developers build. Part of the site would then become public housing (aged care or residential) with the remainder for the developer to sell. One of the costs associated with RVs that reduces feasibility for developers was considered to be GST. RVs should be made GST free to bring them in line with aged care developments.

This recommendation is vital to the ability of developers to produce sufficient appropriate housing for older Australians.

The PC sees merit in pursuing greater consistency of RV legislation across jurisdictions and suggests that COAG may well be an appropriate body to oversee the harmonisation.
We are of the view that a move from a state to a national framework would resolve a number of issues in the sector, but are mindful that any move to harmonisation should be in direct liaison with the RV industry. Not doing so would fail to draw upon the significant expertise of the industry and the importance of specific legislative and contract conditions that underpin the industry and particularly the financial models that enable the industry to develop housing and deliver services at an affordable level.

As outlined in recommendation 11 of our original submission (July 2010) our proposal was that:

- Government consider a whole of government approach to industry regulation that promotes a transparent and fair national legislative framework that simplifies the burden of administrative compliance on retirement village operators, while ensuring that affordable housing and care outcomes for older Australians are appropriately regulated.

We recommend that an industry taskforce with state government, industry and resident representation be set up to work alongside COAG in aligning the legislation across the jurisdictions. We agree with your recommendation that any harmonisation should consider the excellent industry accreditation scheme administered by the RVA, as its 27 standards form the basis of a quality system that ensures tremendous outcomes for residents in retirement villages.

This recommendation, if implemented with input from the industry, could assist the efficiency of the industry and encourage greater levels of investment that results in more supply of social infrastructure that can deliver accommodation and services to older people.

The PC highlighted findings of the Henry Review that concluded that stamp duty is a highly inefficient and inequitable tax which, among other things, deters older Australians from selling their home and moving to more appropriate accommodation.

Moreover, a recent change to GST legislation (GSTR 2011/1) will also provide a major disincentive for investment in new supply of accommodation nationally (through investment being deterred), which could have significant impacts on future pricing and affordability for residents and future residents of retirement villages. This is counter to the PC findings that seek to increase the level of provision of retirement villages as a setting for increased care and services.

We are of the view that the ruling issued by the Australian Tax Office (ATO) on Wednesday, April 27, 2011 that imposes up to 70% GST on the sale of retirement villages, will severely impact the supply of retirement accommodation and push the over-burdened public housing sector to breaking point. The ruling stands to deny older Australians from gaining access to appropriate accommodation and care and will have an adverse generational impact on an industry sector that provides in the order of $50 billion in social infrastructure across the nation.

The ruling will make investment more costly and therefore inhibit capital flow into the sector that will also have the effect of creating pressure for Government and the not-for-profit sector to provide housing, care and support to older people.

As outlined in recommendation 4 of our original submission (July 2010) our proposal was that consideration was given to the following:

- Introduce GST-free treatment for the development of retirement villages.

We recommend that such a measure would create a 'level playing field' with the for profit and not for profit sector and greatly assist in attracting new investment to the industry that will result in an increased ability to generate more supply of accommodation and care options for older people, without adding burden to taxpayers.